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MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

DEC5124 – MACROECONOMICS

(All sections / Groups)

07 FEBRUARY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 9 pages with 2 sections:
   Section 1: FORTY (40) multiple choice; and
   Section 2: THREE (3) structure questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

SECTION 1: MULTIPLE CHOICE QUESTIONS

1. Fiscal policy refers to the _____.
   A. manipulation of government spending and taxes to stabilize domestic output, employment, and the price level
   B. manipulation of government spending and taxes to achieve greater equality in the distribution of income
   C. altering of the interest rate to change aggregate demand
   D. fact that equal increases in government spending and taxation will be contractionary.

2. A balanced budget occurs when _____.
   A. the national debt is reduced to zero dollars
   B. a budget deficit during one year is matched by a budget surplus in the next year
   C. transfer payments equal tax receipts
   D. government expenditures equal tax receipts

3. Unemployment compensation benefits are an example of _____ fiscal policy.
   A. expansionary
   B. automatic
   C. contractionary
   D. discretionary

4. If government wishes to increase the level of real GDP, it might reduce _____.
   A. taxes
   B. transfer payments
   C. the size of the budget deficit
   D. its purchases of goods and services

5. In Keynesian theory, if the marginal propensity to consume is 0.75 and the government decrease taxes by RM10 billion, then real GDP will _____ by _____ billion.
   A. increase; RM30
   B. increase; RM40
   C. decrease; RM40
   D. decrease; RM30

6. Contractionary fiscal policy actions include _____ government spending and/or _____ taxes, while expansionary fiscal policy actions include _____ government spending and/or _____ taxes.
   A. increasing; increasing; decreasing; decreasing
   B. decreasing; increasing; increasing; decreasing
   C. increasing; decreasing; decreasing; increasing
   D. decreasing; decreasing; increasing; increasing

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7. Which of the following illustrates the wait-and-see lags?
   A. Policymakers believe an economic downturn has occurred, but they decide not to take action until they are sure.
   B. Policymakers are in the process of proposing policy measures to deal with the current economic slowdown.
   C. Policymakers first learn of the recession when it is five months old.
   D. Policymakers implement policy X, but it will be a few months before it starts working.

8. To eliminate a recessionary gap, Keynesian theory indicates that government should _____.
   A. increase taxes
   B. decrease taxes
   C. increase government purchases
   D. either B or C

9. If there is complete crowding out as a result of an increase in government purchases, there will be _____.
   A. a decrease in aggregate demand
   B. no change in aggregate demand
   C. an increase in aggregate demand
   D. a downward movement along the aggregate demand curve

10. Assume the economy is in a recession with real GDP at RM450 billion below its natural level, and MPC = 0.80. To bring the real GDP back to its natural level, Keynesian would advise the government to increase its purchases by _____.
   A. RM90 billion
   B. RM112.5 billion
   C. RM360 billion
   D. RM562.5 billion

11. Required reserves are the amount of _____.
   A. reserves a bank must hold against it deposits as mandated by the central bank
   B. gold a bank must hold against it deposits as mandated by the central bank
   C. demand deposits a bank must hold against all other deposits as mandated by the Treasury Department
   D. reserves a bank must hold against all its assets as mandated by the central bank

12. If a person use money to compare the relative values of two goods, money is functioning as _____.
   A. a unit of account
   B. a store of value
   C. a medium of exchange
   D. none of the above

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13. First National Bank holds RM148,000,000 in demand deposits and RM18,000,000 in reserves. With a required-reserve ratio of 12 percent, how much is excess reserves is First National Bank holding?
    A. RM2,160,000
    B. RM240,000
    C. RM35,760,000
    D. RM15,840,000

14. An increased cash leakage _____ the required-reserve ratio, but it does _____ the strength of the money expansion process.
    A. does not affect; lower
    B. does not affect; raise
    C. raises; lower
    D. raises; raise

15. Bank A has deposits of RM9,000 and reserves of RM2,000. If the required-reserve ratio is 12.5 percent, the simple deposit multiplier is _____.
    A. 2
    B. 4
    C. 6
    D. 8

16. Which of the following is not a major responsibility of the center bank?
    A. Controlling the money supply.
    B. Serving as the federal government's banker.
    C. Determining tax rates.
    D. Acting as a lender of last resort.

17. Open market operations are the _____.
    A. buying and selling of central bank notes in the open market
    B. means by which the central bank supplies the economy with currency
    C. means by which the central bank acts as the government's banker
    D. buying and selling of government securities by the central bank

18. According to Keynesian transmission mechanism, a rise in the money supply will _____ the interest rate, causing a _____ in investment demand, which then _____ real GDP.
    A. raise; fall; raises
    B. raise; rise; lowers
    C. lower; fall; lowers
    D. lower; rise; raises

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19. The larger the simple deposit multiplier, _____.
    A. the larger the required-reserve ratio
    B. the smaller the required-reserve ratio
    C. the larger the money multiplier
    D. the smaller the money multiplier

20. Monetary policy refers to _____.
    A. actions taken by banks and other financial institutions regarding their approaches to lending, account management, etc.
    B. changes in the money supply to achieve particular economic goals
    C. changes in government expenditures and taxation to achieve particular economic goals
    D. the change in private expenditures that occurs as consequences of changes in the money supply

21. The aggregate supply curve shows the relationship between the _____.
    A. price of oil and the quantity of aggregate output supplied
    B. aggregate price level and the quantity of aggregate output supplied
    C. price of money and the quantity of aggregate output supplied
    D. level of employment and the quantity of aggregate output supplied

22. Which of will shift the short-run aggregate supply curve to the right?
    A. Economy-wide decrease in commodity prices.
    B. Decrease in nominal wages.
    C. Decrease in productivity.
    D. Decrease in government purchases of goods and services.

23. Which of the following would not be included in aggregate demand?
    A. An increase in firms' inventories.
    B. Purchases of goods by households.
    C. Firm's purchases of newly produced machinery.
    D. Government's tax collections.

24. If the price level falls, the real value of a dollar _____.
    A. rises, so people will want to buy more
    B. rises, so people will want to buy less
    C. falls, so people will want to buy more
    D. falls, so people will want to buy less

25. Which of the following statements about the long-run aggregate supply is correct?
    A. No matter how much prices increase, output remains the same.
    B. Output is at its potential level.
    C. All inputs costs have time to fully adjust.
    D. All of the above.

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26. Which of the following arguments for a downward-sloping AD curve is unconvincing?
    A. A rise in the price level in a country will tend to lead to a fall in the real value of exports and a rise in the real value of imports.
    B. A rise in the price level in a country will lead to lower real spending because it will lead to lower real wealth.
    C. A rise in the price level in a country will reduce the real value of firms' profits, causing them to reduce planned investment.
    D. A rise in the price level in a country will lead to lower real spending because it will lead to a higher interest rate.

27. A lower income tax rate _____ consumption, causing a _____ the AD curve.
    A. stimulates; rightward shift of
    B. stimulates; movement down along
    C. depresses; leftward shift of
    D. depresses; movement up along

28. If C = RM325 + 0.75Y, I = RM1,500, and G = RM0, equilibrium real GDP is _____.
    A. RM7,300
    B. RM2,433
    C. RM9,125
    D. RM6,325

29. Which of the following statements is true?
    A. A decrease in wage rates will shift the SRAS curve to the left.
    B. An adverse supply shock will shift the SRAS curve to the left.
    C. A fall in the prices of nonlabor inputs will shift the SRAS curve to the left.
    D. An increase in labor productivity will shift the aggregate the SRAS curve to the left.

30. Here is a consumption function: $C = C_0 + MPC(Y_d)$. If MPC is 0.80, then we know that _____.
    A. as Y_d rises by RM, C_0 rises by RM0.80
    B. as Y_d rises by RM, C rises by RM0.80
    C. Y_d rises by RM0.80
    D. as C_0 rises by RM0.80, Y_d rises by RM1

31. The government has a budget deficit if _____.
    A. its total revenues are equal to its total expenditures.
    B. its total revenues are less than its total expenditures.
    C. its total revenues are greater than its total expenditures.
    D. the money supply is less than total expenditures.

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32. An economy is in the midst of recession. An example of a government policy aimed at moving the economy back to potential GDP is a(n) _____.
    A. increase taxes
    B. increase in government spending on infrastructure improvements
    C. increase in the property tax
    D. decrease in unemployment benefits

33. If there is an increase in government purchases, then _____.
    A. AD will shift to left, causing an increase in the price level and a decrease in real GDP.
    B. AD will shift to right, causing an increase in price level and an increase in real GDP.
    C. SRAS will shift to left, causing an increase in the price level and a decrease in real GDP.
    D. SRAS will shift to right, causing a decrease in price level and as decrease in real GDP.

34. If the economy is at equilibrium above potential output, there is a(n) _____.
    A. recessionary gap, and expansionary fiscal policy is appropriate
    B. inflationary gap, and contractionary fiscal policy is appropriate
    C. recessionary gap, and contractionary fiscal policy is appropriate
    D. inflationary gap, and expansionary fiscal policy is appropriate

35. The economy policy of changing the quantity of money, hence the interest rate and the overall spending in the economy, is known as _____.
    A. monetary policy
    B. fiscal policy
    C. free-market policy
    D. supply-side policy

36. Currency in circulation, traveler's checks, and checkable bank deposits are the components of _____.
    A. M1 only
    B. M2 only
    C. both M1 and M2
    D. M3 only

37. If the reserve ratio is 25 percent and the money supply increase by RM100,000, then the initial reserve injection by central bank was _____.
    A. RM2,500
    B. RM10,000
    C. RM4,000
    D. RM25,000

Continued .....

38. When the central bank sells government bonds, the reserves of the banking system _____.
    A. increase, so the money supply increases
    B. increase, so the money supply decreases
    C. decrease, so the money supply increases
    D. decrease, so the money supply decreases

39. Money is the most liquid asset available because _____.
    A. it is a store of value
    B. it is a unit of account.
    C. it is a medium of exchange
    D. it has intrinsic value

40. Suppose the economy's current AD and SRAS curves intersect to the right of Natural Real GDP. Keynesian might advise a policy tax _____ to shift _____.
    A. increase; SRAS to the left
    B. increase; AD to the left
    C. cuts; SRAS to the right
    D. cuts; AD to the right

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SECTION 2: STRUCTURAL QUESTIONS

QUESTION 1

(a) Assume that in 2021, the following prevails in Country TAG:

$$C = \$1{,}000 + 0.75Y_d$$
$$I = \$2{,}000$$
$$G = T = \$1{,}000$$
$$NX = \$1{,}500$$

(i) Find the equilibrium aggregate expenditure. (3 marks)

(ii) What is the value of the government spending multiplier and tax multiplier? (4 marks)

(iii) Suppose that the government increases spending by $500 and decreases the tax by $500, find the total change in aggregate expenditure. (3 marks)

(b) Suppose an economy is operating under recessionary gap, discuss the appropriate fiscal policy implementation to close the gap. Illustrate your answer with the aid of an AD-SRAS-LRAS graph. (10 marks)

[Total: 20 marks]

QUESTION 2

(a) (i) Present your explanation THREE (3) major monetary instruments use to control money supply. (6 marks)

(ii) Illustrate how central bank might carry out an 'easy' monetary policy using open market operation. (4 marks)

(c) The following table shows the changes in deposits, reserves, and loans of 4 banks as a result of a $100,000 initial deposit in Bank No.1. Assume all banks are loaned up. Answer the following questions:

Commercial Bank	*New Deposit*	*Required Reserve*	*Loans*
Bank No.1	$100,000.00	$5,000.00	$95,000.00
Bank No.2	$ 95,000.00	$4,750.00	$90,250.00
Bank No.3	$ 90,250.00	$4,512.50	$85,737.00
Bank No.4	$ 85,737.50	$4,286.90	$81,450.63

(i) What is the required reserve ratio? (2 marks)

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(ii) What is the money multiplier in this economy? (2 marks)

(iii) How much money will be created out of the initial $100,000 deposit? (3 marks)

(iv) If the required reserve ratio was changed to 12%, what will be the new deposit, required reserve and loans for Bank No.2? Answer the question by copying and filling up the table below in your Answer Booklet.

Commercial Bank	*New Deposit*	*Required Reserve*	*Loans*
Bank No. 1			
Bank No. 2			

(3 marks)
[Total: 20 marks]

QUESTION 3

(a) Using appropriate diagrams, interpret the differences between change in quantity demanded of real GDP and change in aggregate demand. (10 marks)

(b) Using the aggregate demand and short-run aggregate supply (AD-SRAS) model, illustrate and present your explanation of the effects on the equilibrium price level and real gross domestic product (GDP) for each of the following events:

(i) Due to the Covid-19 pandemic, many firms are at the verge of bankruptcy and start to lay-off workers. (5 marks)

(ii) During inflation, the general prices of all necessities increased, reducing the ability of the public to consume. As a solution, the government implements the contractionary fiscal policy. (5 marks)
[Total: 20 marks]

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